2019 Federal Budget round-up

HEALTHIER, LONGER, BETTER LIVES

As expected this was an election Budget which delivered non-controversial proposals in the main. But it did include some unexpected and generally welcome spending decisions - an opportunity afforded by the expectation of a $7.1b surplus next year, with over $150b in tax relief and $100b in infrastructure spending slated over the next decade. These are big numbers that depend heavily on the outcome of not only this and subsequent elections, but on the performance of a number of uncontrollable factors, not least the global economy (Brexit looms and USA and China trade outcomes are yet to be seen) as well Australian residential housing and credit growth outcomes.

There is a significant investment in job skills and essential services including mental health and aged care measures, and a planned Royal Commission on the mistreatment of the disabled. Mostly though, the Budget was sold around personal and business tax cuts involving both immediate relief and changes to marginal tax rates and thresholds in future years.

While there is no proposed increase to taxes there is certainly an increase to funding for integrity measures such as combating tax avoidance and financial misconduct and overpayments of social security, which is where much of the funding for the spending comes from, along with the unplanned-for rise in iron prices since January. This leads to the main risks the Budget will face, being if the revenue increase is not delivered or sustained and if wages growth assumptions by the Government are overly optimistic.

In our round-up, as always we have focussed on measures we believe to be of particular interest to financial advisers and their clients. It is by no means exhaustive but aims to provide some initial thoughts around advice implications of some of the key announcements.

Note: The following measures are proposals only. The proposals are subject to change, and require the passage of legislation prior to implementation.

Superannuation

Contribution work test abolished for 65 and 66 year olds

Proposed to take effect: 1 July 2020

Clients aged 65 and 66 may soon be able to make voluntary superannuation contributions (both concessional and non-concessional) to their superannuation without meeting the work test.

Under current rules, clients aged 65 to 74 need to meet the work test before making a voluntary contribution. This requires gainful employment for at least 40 hours within 30 consecutive days in the financial year before making the contribution.

Preliminary observations:

This proposal will align the restricted superannuation contribution age with the age pension age which is scheduled to reach 67 from 1 July 2023. This change would be consistent with the primary objective of the superannuation system, which is to provide income in retirement to substitute or supplement the age pension.

It also provides greater flexibility and an opportunity for those non-working clients as they approach age pension age and have some capacity to contribute to their superannuation but are unable to do so as they don't meet the work test. Finally, it is worth noting that certain clients also have the option to utilise the new 'work test exemption' which applies from 1 July 2019. This already legislated measure allows recent retirees aged 65 to 74 that have a total superannuation balance (TSB) of less than $300,000 to make voluntary contributions into superannuation. We await further details as to how the two measures will interact.

Bring-forward rules extended to age 66

Proposed to take effect: 1 July 2020

Clients aged 65 and 66 may soon be able to utilise the bring-forward rules to make three years' worth of non-concessional contributions, which are capped at $100,000 a year, to their superannuation in a single year.

Currently the bring-forward rules are only available for clients aged less than 65 years old.

Preliminary observations:

This proposal will allow clients to increase their retirement savings and may help couples restructure their superannuation to ensure a more even split between both individuals.

A client's ability to utilise the bring-forward rule will remain subject to their TSB on 30 June prior to the financial year of the contribution.

Spouse contributions extended to age 74

Proposed to take effect: 1 July 2020

Under this proposal the age limit on spouse contributions will be increased from 69 years to 74 years.

If the work test exemption above goes through, then spouses aged 65 and 66 will no longer need to meet a work test in order to receive a spouse contribution.

Preliminary observations:

The ability to make spouse contributions for a further five years provides an opportunity to equalise superannuation balances between spouses and allows the contributing spouse to potentially claim the 'spouse contribution tax offset' of up to $540.

The full tax offset is available if the receiving spouse has income up to $37,000 and is generally calculated as 18% on the first $3,000 of non-deductible contributions made on behalf of an eligible spouse.

It is important to remember that spouse contributions:

- count toward the receiving spouse's non-concessional contributions cap
- do not qualify the receiving spouse for a Government co-contribution, and
- are not tax deductible to either the receiving or contributing spouse.

Example

Sasha is age 66 and has a TSB of $500,000 as at 30 June 2021. She has been permanently retired since age 60.

Her partner Cody is age 60, has a TSB of $900,000 as at 30 June 2021 and is still working.

Previously, Cody would only be able to contribute up to a maximum of $300,000 into his own superannuation fund by triggering the bring-forward rule.

Because Sasha can receive spouse contributions without satisfying the work-test, Cody contributes $300,000 as a spouse contribution into Sasha's superannuation fund, bringing forward two years of non-concessional contributions for Sasha, and is still able to contribute up to $300,000 into his own fund.

Protecting your super package amendments

Proposed to take effect: 1 October 2019

The government agreed to amendments of the Protecting Your Super Package that was announced in the 2018/19 Budget.

These amendments received royal assent On 12 March 2019 in *Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018*:

- extend to 16 months the period after which an account that has not received any contribution is considered inactive
- expand the definition of when an account is considered active for the ATO-led consolidation regime, and
- require the ATO to consolidate to an active account, where possible, within 28 days of receipt.

Additional amendments to delay the start date of the opt-in insurance for balances less than $6,000 and new accounts for members under age 25 to 1 October 2019. These are currently before parliament in *Treasury Laws Amendment (Putting Member's Interests First) Bill 2019*.

Streamlining exempt current pension income calculations for SMSFs

Proposed to take effect: 1 July 2020

Trustees of self-managed superannuation funds (SMSFs) will have a choice in how they calculate exempt current pension income (ECPI) when SMSFs have interests in both accumulation and the retirement phase.

This change also removes the requirement for SMSFs to obtain an actuarial certificate where all members are fully in retirement phase for the entire income year.

At present, an SMSF is deemed to be utilising the segregated assets method during any period where 100% of the fund's interests are in the retirement phase.

Preliminary observations:

Allowing trustees with interests in both the accumulation and retirement phases during an income year to choose their preferred method of calculating ECPI will help reduce the administration requirements, complexity and costs for SMSFs.

Permanent tax relief for merging superannuation funds

Proposed to take effect: 1 July 2020

Permanent tax relief will be available for merging superannuation funds. Currently, tax relief is temporary and is due to expire on 1 July 2020.

Since 2008, tax relief has been available for superannuation funds to transfer revenue and capital losses to a new successor fund, and to defer taxation consequences on gains and losses from revenue and capital assets.

Preliminary observations:

The changes remove tax consequences that may prevent superannuation funds from merging and is consistent with recommendations of the Productivity Commission's final report into superannuation. This measure also ensures that member balances are not affected by tax in the event of a merger.

Expansion of SuperStream

Proposed to take effect: 31 March 2021

The requirement for SMSFs to comply with SuperStream standards for rollovers will be delayed to coincide with the administrative change for the ATO whereby it will send electronic release authorities under the expanded SuperStream Rollover Standards.

Preliminary observations:

Release authorities are currently issued by the ATO to release funds from member accounts under several arrangements. Some release authorities require action within specified timeframes and may impose a penalty to the individual or superannuation fund if timeframes have not been met. These changes may reduce the requirements of individuals to pass on a release authority and reduce administration costs for superannuation funds.

Superannuation Complaints Tribunal (SCT) – completion of outstanding complaints

Proposed to take effect: 1 July 2020

The government will provide $2.3m in funding to ASIC to finalise outstanding complaints currently with the SCT which will cease operation on 31 December 2020, six months later than previously planned.

Superannuation Consumer Advocate

Proposed to take effect: 2019 /20

The government will undertake an expression of interest to support the establishment of a Superannuation Consumer Advocate (SCA). The mandate of the SCA will include consumer education and to provide a consumer perspective in policy discussions regarding superannuation.

Preliminary observations:

It is unclear on how the SCA would operate alongside existing regulators and the Australian Financial Complaints Authority (AFCA). We await further detail as this is only in early stages of development.

Personal taxation

The Government will continue to lower taxes for low and middle income earners by building on its legislated 'Personal Income Tax Plan' that was announced in the 2018/19 Budget. The changes aim to support consumption growth and ease cost of living pressures.

Personal income tax cuts

Proposed to take effect: 1 July 2022 onwards

The proposed changes to the income tax thresholds and tax rates are shown in the table below:

Rate	2018/19 to 2021/22 (current)	2022/23 to 2023/24 (proposed)	2024/25 onwards (proposed)
Nil	$0 - $18,200	$0 - $18,200	$0 - $18,200
19%	$18,201 - $37,000	$18,201 - **$45,000**	$18,201 - **$45,000**
32.5%	$37,001 - **$90,000**	**$45,001 - $120,000**	**$45,001 - $200,000 at 30%**
37%	**$90,001** - $180,000	**$120,001** - $180,000	
45%	$180,000+	$180,000+	**$200,000+**

In summary, the key changes include:

- an increase to the 19% tax bracket top threshold from $37,000 to $45,000 from 2022/23 onwards
- an increase to the 32.5% tax bracket top threshold from $90,000 to $120,000 in 2022/23
- a reduction of the 32.5% tax bracket rate to 30% in 2024/25 onwards, and
- the removal of the 37% tax bracket from 2024/25 onwards (already legislated).

Preliminary observations:

Currently the top 10% of income earners account for approximately 45% of income tax revenue, up from 35% two decades ago. The changes to the personal income tax bracket thresholds are made to counteract the impact of 'bracket creep' which is caused by inflationary impacts on wages. The threshold changes and tax rate reduction will mainly benefit clients earning incomes between $45,000 and $200,000. Under this measure the Government projects 94% of taxpayers will have a marginal tax rate of 30% or less from 1 July 2024.

Immediate relief for low and middle income earners

Proposed to take effect: 1 July 2018 to 2021/22

The Government has proposed a further reduction in tax through the low and middle income tax offset (LMITO). Under the changes, the base amount of the LMITO will increase from $200 to $255 pa with the maximum offset amount also increasing from $530 to $1,080 pa.

The LMITO is a non-refundable tax offset and is available from 2018/19 to 2021/22. The offset is in addition to the low income tax offset (LITO) and is received as a lump sum on assessment after an individual lodges their tax return.

The table below compares the proposed changes to the LMITO and summarises the amount of the LMITO that an individual may be entitled to receive:

2018/19 to 2021/22 (current)		2018/19 to 2021/22 (proposed)	
Taxable income (TI)	Maximum offset	Taxable income (TI)	Maximum offset
$0 - $37,000	Up to $200	$0 - $37,000	Up to $255
$37,001 - $48,000	$200 + [(taxable income - $37,000) x 0.03]	$37,001 - $48,000	$255 + [(taxable income - $37,000) x 0.075]
$48,001 - $90,000	$530	$48,001 - $90,000	$1,080
$90,001 - $125,333	$530 - [(taxable income - $90,000) x 0.015]	$90,001 - $126,000	$1,080 - [(taxable income - $90,000) x 0.03]
$125,334+	Nil	$126,001+	Nil

In summary, the key changes arising from this measure include:

- individuals with taxable incomes up to $37,000 will have their tax reduced by up to $255
- the value of LMITO will continue to increase at a rate of 7.5 cents for every dollar of income between $37,000 and $48,000
- the maximum LMITO of $1,080 will be available to individuals with taxable incomes between $48,000 and $90,000
- the LMITO will reduce at a rate of 3 cents for every dollar of income between $90,000 and $126,000, and
- the LMITO will phase out completely for individuals who earn more than $126,000 pa.

Preliminary observations:

The increase in the LMITO will reduce tax by up to $1,080 for single individuals or up to $2,160 for dual income families. Clients will be entitled to the higher LMITO for the 2018/19 financial year after they lodge their tax returns from 1 July 2019.

Further, the increase to the LMITO combined with the LITO will increase the effective tax-free threshold in 2018/19 to $21,884 for individuals below age pension age.

Low income tax offset (LITO) to increase

Proposed to take effect: 1 July 2022

The LITO is already legislated to increase from $445 to $645 from 2022/23 for clients with taxable income of less than $37,000 pa.

From 1 July 2022, the Government will further increase the LITO from $645 to $700.

The following table summarises the amount of the LITO that an individual may be entitled to receive:

2017/18 to 2021/22 (current)		2022/23 onwards (proposed)	
Taxable income	Maximum offset	Taxable income	Maximum offset
$0 - $37,000	Up to $445	$0 - $37,500	Up to $700
$37,001 - $66,667	$445 – [(taxable income - $37,000) x 0.015]	$37,501 - $45,000	$665 – [(taxable income - $37,000) x 0.05]
NA		$45,001 - $66,667	$385 – [(taxable income - $41,000) x 0.015]
$66,667+	Nil	$66,667+	Nil

In summary, the key changes include:

- the maximum LITO of $700 will be available to individuals with taxable incomes up to $37,500
- the LITO will start to reduce at a rate of 5 cents for every dollar of income between $37,500 and $45,000
- the LITO will continue to reduce at a rate of 1.5 cents for every dollar of income between $45,000 and $66,667, and
- the LITO phases out completely for individuals who earn more than $66,667 pa.

Preliminary observations:

The increase to the top threshold of the 19% tax bracket to $45,000 and the increase to the LITO to $700 will both make up for the removal of the LMITO on 30 June 2022.

Medicare low income thresholds increased

Proposed to take effect: 1 July 2018

Low-income Medicare levy thresholds for singles, families, seniors and pensioners will increase to take account of movements in the consumer price index (CPI). The current exemptions from the Medicare levy will remain in place.

The table below compares the level of taxable income below which no Medicare levy is payable for the 2018/19 financial year:

	2017/18 (current)	2018/19 (proposed)
Singles	$21,980	$22,398
Singles eligible for SAPTO	$34,758	$35,418
Families	$37,089	$37,794
Families eligible for SAPTO	$48,385	$49,304
Additional for each dependent child/student	$3,406	$3,471

Medicare rebate freeze to be removed

Proposed to take effect: 1 July 2019

Medicare funds a range of services such as general practitioner (GP) visits and other medical services, and the Medicare benefits schedule (MBS) lists the services that the

Australian Government will provide a Medicare rebate for.

As the Medicare rebate does not cover the full cost of medical services, there is often a gap between what patients pay for services and the amount that Medicare reimburses.

The Medicare rebate has been frozen since 2014 as part of the then Government's savings plan.

Under proposed changes, the Government has announced that it will re-introduce indexation to all remaining GP services on the MBS.

Removing the Medicare rebate freeze will ease the burden on patients paying for out of pocket medical costs.

Business taxation

Increase to instant asset write off threshold

Proposed to take effect: From 7:30 PM (AEDT), 2 April 2019 (Budget night)

The small business instant asset write-off threshold will increase from $25,000 to $30,000.

This measure enables eligible businesses to immediately deduct the purchase price of eligible assets costing less than $30,000 (per asset) that are first used, or installed ready for use prior to 30 June 2020.

In addition, medium sized businesses (i.e. those with aggregated annual turnover between $10m and $50m) will also qualify. Medium sized businesses must acquire these assets after Budget night to be eligible as they have previously not had access to the instant asset write-off.

The increased and expanded instant asset write-off will apply from Budget night until 30 June 2020.

These changes interact with the Government's January announcement that it would increase the instant asset write-off threshold for small businesses from $20,000 to $25,000 and extend the instant asset write-off for an additional 12 months to 30 June 2020.

Preliminary observations:

Three different threshold amounts apply for the 2019 income year which may complicate the process of determining business and asset eligibility. Applicable threshold amounts will depend upon when the assets are first used or installed ready for use as set out below.

Instant asset write-off thresholds

	Assets first used or installed ready for use on or before 28 January 2019	Assets first used or installed ready for use between 29 January 2019 and 7:30pm (AEDT) 2 April 2019	Assets first used or installed ready for use from 7:30pm (AEDT) 2 April 2019 to 30 June 2020
Small business (aggregated annual turnover < $10m)	$20,000	$25,000	$30,000
Medium business (aggregated annual turnover $10m to < $50m)	-	-	$30,000*

*Must be purchased after 7:30pm (AEDT) 2 April 2019 to qualify.

Deferral of amendments to Division 7A

Proposed to take effect: 1 July 2020

Division 7A is an integrity rule that requires benefits provided by private companies to related taxpayers to be taxed as dividends unless they are structured as Division 7A complying loans or another exception applies.

Where a related private company is made entitled to a share of trust income as a beneficiary but has not been paid that amount, it is known as an unpaid present entitlement. This measure is intended to ensure an unpaid present entitlement is either repaid to the private company over time as a complying loan or is subject to tax as a dividend.

Previously announced in the 2018/19 Budget, this measure will put unpaid present entitlements within the scope of Division 7A of the *Income Tax Assessment Act 1936* from 1 July 2020, rather than 2019. The start date is being deferred by 12 months to allow additional time to further consult with stakeholders whose feedback raised complex implementation issues warranting consideration.

Fast tracking of company tax rate cut

Proposed to take effect: 1 July 2021

The Government previously legislated lower tax rates for small and medium companies (turnover below $50m). Under this proposal their current 27.5% tax rate will reduce to 25% by 2021/22, five years earlier than previously planned.

The Government estimates that this measure will benefit around 970,000 small and medium sized companies that employ around 5.2m workers.

Social security

Energy assistance payment

Proposed to take effect: 1 July 2018

Clients who are entitled to certain social security payments will automatically receive a one-off payment by the end of 30 June 2019. The payment will be exempt from income tax and aims to assist social security recipients with their next power bill and cost of living expenses.

The payment will be $75 for singles and $125 for couples who were eligible for the following payments as at 2 April 2019:

- Age pension
- Carer payment
- Disability support pension
- Parenting payment single, and
- Department of Veterans' Affairs service pension, war widow(er)s pension, income support supplement and disability payments.

Automating the reporting employment income

Proposed to take effect: 1 July 2020

At present, clients who are employed and receive income support payments are required to calculate and report their earnings on a fortnightly basis.

Under proposed changes, the reporting of employment income for social security purposes will be automated through Single Touch Payroll (STP). This means employment income will be reported to the Department of Human Services through STP for those employers who use this system.

Preliminary observations:

This measure will help create efficiencies as:

- income support recipients will no longer need to manually report their earnings on a fortnightly basis
- there will be more accurate reporting of employment income, and
- there is less likelihood of clients receiving an overpayment which needs to be repaid.

It is important to note that this measure will not change the eligibility criteria or minimum and maximum payment rates of income support payments.

Aged care

Increased funding for aged care

Proposed to take effect: 1 July 2018

The Government will provide $724.8m over five years from 2018/19 to support older Australians through further improvements to the quality, safety and accessibility of residential and home care services.

Some of the key measures include:

- a one-off increase to the basic subsidy for residential aged care recipients
- an additional 13,500 residential aged care places
- an additional 10,000 home care packages across the four package levels (basic, low, intermediate and high level care needs)
- an increase to the dementia and the veterans' home care supplements to support home care recipients who require additional care to stay in their homes longer, and
- funding to strengthen aged care regulation.

Commonwealth home support programme funding extended

Proposed to take effect: 1 July 2020

The Government will extend funding for the Commonwealth home support programme (CHSP) until 30 June 2022.

Under current arrangements, funding for the CHSP was due to cease on 30 June 2022.

The CHSP provides essential home support services, such as meals (meals on wheels), personal care, nursing, domestic assistance, home maintenance, home modifications, aids and equipment and community transport, to assist older people to keep living independently in their own home.

Regulation and integrity measures

Government response to the Royal Commission

Proposed to take effect: 1 July 2018 (funding has commenced)

The Government has earmarked over $600m over five years to facilitate their response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission).

The package comprises a suite of measures including:

- introducing an industry funded compensation scheme of last resort for consumers and small business
- providing the Australian Financial Complaints Authority (AFCA) with additional funding for a historical redress

scheme to consider eligible financial complaints dating back to 1 January 2008

- paying compensation owed to consumers and small businesses from legacy unpaid external dispute resolution determinations
- resourcing ASIC to implement its new enforcement strategy and expand its capabilities and roles
- resourcing the Australian Prudential Regulation Authority (APRA) to strengthen its supervisory and enforcement activities
- establishing an independent oversight authority to assess and report on the financial regulators' effectiveness in discharging their functions (ASIC, APRA), and a capability review of APRA, and
- establishing a Financial Services Reform Implementation Taskforce within the Treasury to implement and co-ordinate reform efforts with APRA, ASIC and other agencies.

The cost of this measure will be partially offset by revenue received through ASIC's industry funding model and increases in the APRA Financial Institutions Supervisory Levies.

Preliminary observations:

The Government has already put forward a number of measures in response to the Royal Commission. Much of this has occurred via consultation papers and 'reviews' thus far, and passing of any legislation will depend on a number of circumstances, not least the outcome of the upcoming election.

However, the Government has released exposure draft legislation to ban grandfathering of conflicted remuneration paid to financial advisers from 1 January 2021. They also recently released draft regulations requiring product manufacturers to pass to clients the benefits of any previously grandfathered conflicted remuneration remaining in contracts after 1 January 2021 and to keep records of those amounts. The Government also issued a Ministerial Direction, requiring that ASIC undertake an investigation to monitor and report on industry behaviour in the period 1 July 2019 to 1 January 2021.

Life insurance is currently exempt from the ban on conflicted remuneration paid to financial advisers, though cap reductions on upfront and ongoing commissions are already in place.

The Royal Commission report said this should be reviewed by ASIC in 2021, and "unless there is a clear justification for retaining those commissions, the cap should ultimately be reduced to zero". Our view is that commissions should not be banned as this would lead to fewer people taking out life and disability insurance, fewer people taking the appropriate type of insurance and fewer seeking or affording financial advice - exacerbating the current underinsurance problem for Australians. For example, a recent Rice Warner report noted that only a third of the working population is currently insured to protect their income if they are unable to work due to disability. Underinsurance restricts the lifestyle of claimants and their dependants after an unfortunate event, and results in substantial cost to government, mainly in the form of social security benefits.

Additional resourcing for Federal Court

Proposed to take effect: 1 July 2018 (additional funding has commenced)

The jurisdiction of the Federal Court of Australia will expand to include corporate crime. The expansion and funding of $43.9m over five years is intended to ensure that prosecutions are conducted in a timely manner.

The funding will support the appointment of two judges, 11 registry and support staff and the construction of new court facilities for the hearing of criminal proceedings.

Preliminary observations:

Referrals arising out of the Royal Commission and increased enforcement activity as a result of ASIC's shift to a 'why not litigate' approach are expected to give rise to more criminal prosecutions. Currently these matters are dealt with at state level, and with the state Supreme Courts backlogged as they are, this measure is likely to result in more timely instigation of proceedings and therefore more effective deterrence.

ASIC has stated that for the 2019 year it will focus in particular on culture, governance and remuneration practices using a variety of new supervisory and enforcement approaches, including 'close and continuous monitoring' and a new Office of Enforcement to 'focus on deterrence, public denunciation and punishment of wrongdoing by way of litigation'.

Extension and expansion of the ATO Tax Avoidance Taskforce

Proposed to take effect: 1 July 2019

The Government will provide $1b over four years to the ATO to extend the operation of the Tax Avoidance Taskforce.

The Taskforce undertakes compliance activities targeting multinationals, large public and private groups, trusts and high wealth individuals. This measure will fund expansion of these activities, including increasing scrutiny of specialist tax advisors and intermediaries that promote tax avoidance schemes and strategies.

The Government has also committed to $42.1m over four years to the ATO to increase activities to recover unpaid tax and liabilities including from large corporate entities and high wealth individuals.

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